

Simcoe Erie Investors Limited
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31st



NINETEEN SEVENTY-SEVEN

HEAD OFFICE

786 King Street East, Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust Company

Toronto

AUDITORS

Coopers & Lybrand

BANKERS

The Toronto-Dominion Bank

Fulton National Bank, Atlanta, Georgia

The First National Bank of Miami, Florida

Bank of Bermuda

Toronto-Dominion Bank

Cornhill Branch, London, England

Citibank N.A., New York

SHARES LISTED

Toronto Stock Exchange

AR21

INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1977

Simcoe Erie Investors Limited

786 KING STREET EAST
HAMILTON, ONTARIO

TO THE SHAREHOLDERS:

On a consolidated basis, net earnings for the first six months reached \$1,227,051. This represents an increase of \$574,811., from 1976 and on a percentage basis, kept pace with the trend established during the first quarter. We continue to be optimistic regarding the balance of the year although we are concerned that the recent upturn in the inflation rate could become a factor during 1978. For the time being; however, we are satisfied that premium rates in general are adequate and that there is little likelihood there could be a return on the part of our industry to the recent past and its lack of stress on profitable underwriting. As a result, we feel we can maintain a satisfactory growth level without any effect on our underwriting standards.

The Board of Directors have declared a semi-annual dividend of 6½¢ payable October 3, 1977 to shareholders of record September 15, 1977. This amount is the maximum payable under AIB guidelines.

John C. Stradwick, Jr.,

President

August 25, 1977

Simcoe Erie Investors

CONSOLIDATED STATEMENT OF EARNINGS For the Six Month Period Ending June 30, 1977 (Unaudited)

GROSS PREMIUMS WRITTEN	
NET PREMIUMS EARNED	
EARNINGS BEFORE DEBENTURE INTEREST AND INCOME TAXES	
DEBENTURE INTEREST	
PROVISION FOR INCOME TAXES	
CURRENT	
DEFERRED	
NET EARNINGS FOR THE PERIOD	
EARNINGS PER SHARE	
BASIC	
FULLY DILUTED	

CONSOLIDATED STATEMENT OF RESOURCES For the Six Month Period Ending June 30, 1977 (Unaudited)

RESOURCES PROVIDED	
Operations	
Net Earnings for the Period	
Deferred Income Taxes	
Depreciation and Amortization (net)	
Realization of Other Assets	
Share of Earnings of Corporate Joint Venture	
Unrealized Exchange (gain) loss	
Minority Interest's Share of Earnings	
Increase in Unearned Premiums	
Increase (decrease) in Accounts Payable over Accounts Receivable	
Proceeds of Bank Loans	
RESOURCES APPLIED	
Increase in Deferred Premium Adjustment Costs	
Dividends	
Repayment of Bank Loans	
Purchase of Fixed Assets	
Purchase of Other Assets	
INCREASE IN RESOURCES	
RESOURCES — Beginning of Period	
RESOURCES — End of Period	



ted AND ITS SUBSIDIARIES

ENT OF EARNINGS

nded June 30, 1977

d)	1977 \$	1976 \$
.....	<u>31,791,861</u>	<u>21,240,483</u>
.....	<u>9,419,022</u>	<u>6,820,417</u>
EXES	2,199,392	939,598
.....	15,435	29,658
.....	878,406	287,800
.....	<u>78,500</u>	(30,100)
.....	<u>1,227,051</u>	<u>652,240</u>
.....	1.10	.66
.....	1.01	.53

ANGES IN FINANCIAL POSITION

nded June 30, 1977

d)	1977 \$	1976 \$
.....	1,227,051	652,240
.....	78,500	(30,100)
.....	35,636	25,025
.....	---	59,415
.....	(33,241)	(34,155)
.....	3,360	(2,829)
.....	1,014	386
.....	<u>592,039</u>	<u>129,148</u>
.....	1,904,359	799,130
ceivable	371,786	(600,538)
.....	---	1,000,000
.....	<u>2,276,145</u>	<u>1,198,592</u>
.....	168,115	8,170
.....	72,380	49,356
.....	210,000	50,000
.....	64,081	18,483
.....	<u>28,114</u>	---
.....	<u>542,690</u>	<u>126,009</u>
.....	1,733,455	1,072,583
.....	<u>27,187,329</u>	<u>21,773,455</u>
.....	<u>28,920,784</u>	<u>22,846,038</u>

Conway Stradwick, Jr. President
 Tony Thomas Chmiel Executive Vice-President
 ist Dodd Secretary
 ist Harry Swindall Treasurer

ony Thomas Chmiel, Eric L. Clark, John Thomas Hamilton,
 neth Edward Jones, Henry Vernon Kneale,
 Conway Stradwick, Jr., John Charles Stradwick, Sr.,
 am Lloyd Stradwick, Ernest Harry Swindall,
 Warren Nevil Thomas, Arnold Joseph Van Heukelom,
 olm McNeil Webb.

TO THE SHAREHOLDERS:

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The Board of Directors have declared a semi-annual dividend of 6½¢ payable October 3, 1977 to shareholders of record September 15, 1977. This amount is the maximum payable under AIB guidelines.

John C. Stradwick, Jr.,

President

August 25, 1977

Simcoe Erie Investors Limited

Simcoe & Erie General Insurance Company

The Bay City General Insurance Company

Simcoe Bay Reinsurance Company Limited
of Bermuda

Sefco Limited

Robert Bradford of Canada Limited



Officers

John Conway Stradwick, Jr..... President
Anthony Thomas Chmiel Executive Vice-President
Ernest Dodd Secretary
Ernest Harry Swindall Treasurer

Directors

Anthony Thomas Chmiel, Eric L. Clark, John Thomas Hamilton,
Kenneth Edward Jones, Henry Vernon Kneale,
John Conway Stradwick, Jr., John Charles Stradwick, Sr.,
William Lloyd Stradwick, Ernest Harry Swindall,
John Warren Nevil Thomas, Arnold Joseph Van Heukelom,
Malcolm McNeil Webb.

President's Report

To The Shareholders

On a consolidated basis, earnings available for shareholders in 1977 increased 25.6% over the previous year to \$1,830,535. Fully diluted earnings per share rose to \$1.51 from \$1.22 during the same period. Again a substantial growth in premium income was achieved and resultant reserves absorbed without affecting the profitability of our Company. I also am happy to report that it has been done within the guidelines of the Anti-Inflation Board.

As mentioned in the last annual report, our conservative investment policy was maintained and its effect was evidenced by strong investment earnings during the year. The market value of our bond portfolio almost equated amortized cost and our stocks had a value in excess of cost. This achievement, despite present economic conditions, provides us with the ability to continue our existing programmes with the backing of a strong financial base supplemented by secure investment income.

It must be noted that 1978 has seen the re-appearance of injurious rate competition within the insurance industry that in many cases must lead to loss if emulated. Our position is to continue to maintain equitable and profitable premium levels and by so doing, again avoid a repetition of the industry's problems of the early 1970's.

I am pleased to report that the directors have declared a quarterly dividend of 5¢ payable May 1, 1978 to shareholders of record April 26, 1978. By so doing, the directors have recognized the stability of our Group earnings by regularizing our past policy of semi-annual dividends supplemented by an extra dividend if warranted. I am sure shareholders will appreciate this attempt to provide them with a reasonable percentage of profits on a more predictable basis.

April 12, 1978



Handwritten signature of John G. Thibault.

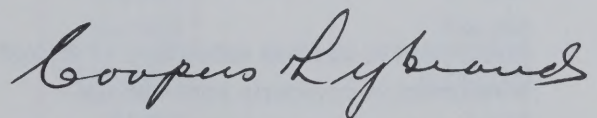
PRESIDENT

Auditors' Report

To The Shareholders

We have examined the consolidated balance sheet of Simcoe Erie Investors Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applies on a basis consistent with that of the preceding year.



CHARTERED ACCOUNTANTS

Dated Hamilton, Ontario April 7, 1978



Consolidated Balance Sheet as at

Assets

	1977 \$	1976 \$
Cash	3,534,614	3,237,064
Accounts receivable		
Agents	6,076,048	4,294,054
Reinsurers	313,119	287,297
Other	57,618	35,983
	6,446,785	4,617,334
Accrued interest	569,651	430,863
Investments		
Short-term deposits	2,405,178	1,805,959
Bonds — at amortized cost (quoted market value 1977 — \$23,611,450; 1976 — \$17,300,762)	23,924,510	17,684,163
Stocks — at cost (quoted market value 1977 — \$6,537,459; 1976 — \$4,300,459)	6,263,538	4,460,143
	32,593,226	23,950,265
Investment in inactive subsidiary — at cost	500	500
Investment in corporate joint venture	160,502	91,664
Advance to corporate joint venture	—	25,000
Fixed assets — at cost less accumulated depreciation (Note 2)	178,036	140,766
Other assets	494,215	445,471
Excess of cost of investment in shares of subsidiaries over net book value of assets acquired — less amortization	167,204	177,636
Deferred premium acquisition costs	1,636,495	1,542,516
	2,636,952	2,423,553

SIGNED ON BEHALF OF THE BOARD

45,781,228

34,659,079

A. J. Charnick
Director

Malcolm M. Walsh
Director

December 31, 1977

Liabilities	1977 \$	1976 \$
Unpaid claims and provision for adjustment expenses	15,512,169	10,635,960
Accounts payable		
Reinsurers	5,149,092	4,409,465
Agents	667,638	495,471
Other	1,059,360	1,023,287
Income and other taxes payable	1,680,591	986,311
Reinsurers' deposits	2,701,660	1,883,792
	<u>26,770,510</u>	<u>19,434,286</u>
Unearned premiums	7,115,197	6,250,486
Unearned commission	725,000	185,000
Bank loan (Note 3)	1,880,000	1,265,000
Note payable	68,854	63,419
6% Convertible debentures (Note 4)	497,700	514,500
Deferred income taxes	727,300	654,800
	<u>11,014,051</u>	<u>8,933,205</u>
Minority interest	<u>10,165</u>	<u>7,538</u>
Shareholders' Equity		
CAPITAL STOCK (Notes 4 and 5)		
Authorized		
2,000,000 Common shares without par value		
Issued		
1,116,905	3,154,538	3,137,739
RETAINED EARNINGS	<u>4,831,964</u>	<u>3,146,311</u>
	<u>7,986,502</u>	<u>6,284,050</u>
	<u>45,781,228</u>	<u>34,659,079</u>

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1977

	1977 \$	1976 \$
BALANCE — BEGINNING OF YEAR	3,146,311	1,797,108
Net earnings for the year	<u>1,830,535</u>	<u>1,457,786</u>
	4,976,846	3,254,894
Dividends (Note 6)	<u>144,882</u>	<u>108,583</u>
BALANCE — END OF YEAR	<u><u>4,831,964</u></u>	<u><u>3,146,311</u></u>



Consolidated Statement of Earnings

For the Year Ended December 31, 1977

	1977 \$	1976 \$
GROSS PREMIUMS WRITTEN	<u>67,581,351</u>	<u>47,341,111</u>
REVENUE		
Premiums earned	21,191,465	16,139,110
Management fees	36,828	31,952
Investment income	<u>2,658,375</u>	<u>1,980,503</u>
	<u>23,886,668</u>	<u>18,151,565</u>
EXPENSES		
Claims incurred	15,521,375	10,926,510
Commissions	2,083,556	1,977,411
Premium taxes	1,170,968	907,090
Other underwriting	1,791,744	1,787,378
Administration and investment	498,790	494,776
Debenture interest	<u>30,411</u>	<u>59,316</u>
	<u>21,096,844</u>	<u>16,152,481</u>
	<u>2,789,824</u>	<u>1,999,084</u>
PROVISION FOR INCOME TAXES		
Current	953,000	585,642
Deferred	<u>72,500</u>	<u>13,200</u>
	<u>1,025,500</u>	<u>598,842</u>
EARNINGS BEFORE EQUITY IN NET EARNINGS OF CORPORATE JOINT VENTURE AND MINORITY INTEREST	1,764,324	1,400,242
EQUITY IN EARNINGS OF CORPORATE JOINT VENTURE	68,838	58,648
MINORITY INTEREST	<u>2,627</u>	<u>1,104</u>
NET EARNINGS FOR THE YEAR (Notes 7 and 8)	<u>1,830,535</u>	<u>1,457,786</u>

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1977

RESOURCES PROVIDED	1977	1976
Operations	\$	\$
Net earnings for the year	1,830,535	1,457,786
Deferred income taxes	72,500	13,200
Depreciation and amortization	67,183	51,950
Amortization of the excess of cost of investment in shares of subsidiaries over net book value of assets acquired	10,432	10,432
Share of earnings of corporate joint venture	(68,838)	(58,648)
Unrealized exchange (gain) loss	5,435	(561)
Minority interest share in earnings	2,627	1,104
Increase in unearned premiums	864,711	1,003,831
Increase in unearned commissions	540,000	185,000
	3,324,585	2,664,094
Increase in accounts payable over accounts receivable	5,367,984	2,302,154
Proceeds of bank loans	1,025,000	1,000,000
Received from corporate joint venture	25,000	—
	9,742,569	5,966,248
RESOURCES APPLIED		
Increase in deferred premium acquisition costs	93,979	73,829
Dividends	144,882	108,583
Repayment of bank loans	410,000	235,000
Purchase of fixed assets	104,453	64,788
Purchase of other assets	48,744	70,174
	802,058	552,374
INCREASE IN RESOURCES	8,940,511	5,413,874
RESOURCES — BEGINNING OF YEAR	27,187,329	21,773,455
RESOURCES — END OF YEAR	36,127,840	27,187,329
REPRESENTED BY:		
Cash	3,534,614	3,237,064
Investments	32,593,226	23,950,265
	36,127,840	27,187,329

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1977

1. Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statement include the accounts of the company and three of its subsidiary companies, Simcoe & Erie General Insurance Company, The Bay City General Insurance Company and Simcoe Bay Reinsurance Company Limited. The investment in an inactive fourth subsidiary, Sefco Limited, has not been consolidated as the accounts are not material in relation to these statements. The investment in Robt. Bradford of Canada Limited, a corporate joint venture, is accounted for on an equity basis.

(b) Amortization

The excess cost of investment in shares of subsidiaries over net book value of assets acquired is being amortized on a straight line basis over twenty years. The amount charged to earnings during the year was \$10,432. (1976 — \$10,432).

2. Fixed Assets

	1977 \$	1976 \$
Equipment, automobiles computer programs and leasehold improvements	406,741	344,276
Less: Accumulated depreciation and amortization	<u>228,705</u>	<u>203,510</u>
	<u>178,036</u>	<u>140,766</u>

3. Bank Loan

The shares of certain subsidiary companies representing net assets of approximately \$7,860,000 have been pledged as security for the bank loan.





4. Convertible Debentures

The debentures are secured by a first floating charge on the assets and undertaking of the company and are convertible into common shares at \$5.00 per share on or before December 31, 1981; 99,540 shares have been set aside to satisfy the remaining conversion privileges. During the year, 3,360 common shares were issued at \$5.00 per share on conversion of \$16,800 of debentures.

5. Share Warrants

There are 9,670 share warrants outstanding as at December 31, 1977 which may be exchanged for common shares on the same basis as the convertible debentures described in Note 4.

6. Anti-Inflation Act

The company is subject to restraint of dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975, and are due to expire October 14, 1978 with respect to dividends.

Two subsidiaries, Simcoe & Erie General Insurance Company and The Bay City General Insurance Company, are subject to compliance with the prices and profits provisions of the Act and Regulations.

7. Earnings Per Share

	1977	1976
	\$	\$
Basic	1.64	1.48
Adjusted basic	1.64	1.32
Fully diluted	1.51	1.22

Basic earnings per share are calculated based on the weighted AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DURING THE YEAR.

Adjusted basic earnings per share are calculated assuming that the 3,360 shares issued during the year on conversion of \$16,800 in debentures occurred January 1, 1977. Earnings applicable to common shares were adjusted by the interest, after income tax, (\$285) on those debentures converted.

The calculation of fully diluted earnings per share assumes that all of the outstanding 6% debentures and share warrants were converted into common shares as of January 1, 1977. Earnings applicable to common shares were adjusted by the interest, after income tax, on the 6% debentures (\$15,814) and imputed interest on the share warrants (\$2,514). The number of common shares outstanding was adjusted to reflect the additional shares that would have resulted on conversion (109,210).

8. Statutory Information

Expenses for the year include depreciation and amortization in the amount of \$67,183 (1976 — \$51,950).

The remuneration of directors and senior officers of the company and its subsidiaries, as defined by the Business Corporations Act (Ontario) amounted to \$246,112 (1976 — \$188,499).

9. Comparative figures

Certain of the comparative figures have been restated to conform with the 1977 method of presentation.



